



**Board of Directors
April 17, 2019**

SUBJECT:

Budget Workshop #3: Review Draft Biennial Budget for Fiscal Years 2019-20 and 2020-21, Proposed Water, Sewer, and Recycled Water Rates and Charges, and Authorize Mailing of Proposition 218 Notice of Public Hearing

BACKGROUND:

The District prepares a Biennial Budget to reflect the plans and financial resources to be invested towards projects and initiative to meet its strategic objectives during the next two years. The Biennial Budget includes sources and uses of funds, detailed services and departmental expenditures, capital improvement plan (CIP), operating fixed assets (OFA), non-operating expenditures, and special projects and studies.

Biennial Budget:

The first budget workshop was held on February 20, 2019, to review the major assumptions, consolidated sources and uses of funds, and projected capital improvements. The second budget workshop was held on March 20, 2019, to review operating expenditures, OFA, and preliminary rate adjustments. Staff welcomed the Board's feedback and incorporated the recommended changes as are outlined in the Budget Presentation. The Preliminary Biennial Budget Summary for Fiscal Years 2019-20 and 2020-21 (Exhibit A) includes the following elements:

- Consolidated summaries of budgeted expenditures and receipts;
- Operating service revenues and expenses;
- CIP Summary;
- OFA Summary; and
- Consolidated department expenses by account.

A complete budget summary including detailed department expenses, organization chart, CIP, and OFA details will be provided to the Board at the final Budget Workshop, which is scheduled for June 19, 2019.

Summary – Biennial Budget:

The proposed budget for Fiscal Year 2019-20 and Fiscal Year 2020-21 is estimated to be \$406.5 million and \$430.2 million, respectively, including operating expenses, capital expenditures, debt service, and other post-employment benefit (OPEB) funding.

- Operating expenses for water, sewer, and recycled services are estimated to be \$201.6 million and \$209.0 million in Fiscal Year 2019-20 and Fiscal Year 2020-21, respectively;
- CIP expenditures are estimated to be \$70.9 million and \$84.0 million in Fiscal Year 2019-20 and Fiscal Year 2020-21, respectively;
- Debt service is projected to be \$58.4 million and \$59.9 million in Fiscal Year 2019-20 and Fiscal Year 2020-21, respectively;
- General and administrative (G&A) expenditures are estimated to be \$24.9 million and \$25.9 million in Fiscal Year 2019-20 and Fiscal Year 2020-21, respectively;
- OFA expenditures are estimated to be \$27.7 million and \$25.9 million in Fiscal Year 2019-20 and Fiscal Year 2020-21, respectively;
- Other expenditures estimated to be \$5.0 million and \$6.4 million in Fiscal Year 2019-20 and Fiscal Year 2020-21, respectively; and
- OPEB contributions estimated to be \$18.0 million and \$19.0 million in Fiscal Year 2019-20 and Fiscal Year 2020-21, respectively.

Transmitted herewith is a presentation summarizing the proposed Biennial Budget for Fiscal Year 2019-20 and Fiscal Year 2020-21 and the Fiscal Year 2019-20 and Fiscal Year 2020-21 Preliminary Budget Book (Exhibit A).

Proposed Rates:

Staff prepared an analysis of the 2020 Metropolitan Water District (MWD) water rate increase and calculated the impact to be approximately \$2.7 million in Fiscal Year 2019-20 and Fiscal Year 2020-21, respectively, on purchases of 73,900 acre-feet of water from MWD.

Water - Domestic Retail Rates:

Staff recommends an increase to the Commodity Charge and Daily Service Charge (DSC) of 3.0 percent effective January 1, 2020 and January 1, 2021, respectively, in order to fund increases to cost of service and to fund the pass-through of the additional costs of purchase water from MWD. Additionally, staff recommends a fixed charge per equivalent meter size (EMS) of \$0.90 per month effective January 1, 2020 and again on January 1, 2021, for the purpose of funding water system reliability capital projects.

Water - Agricultural Rates:

In June 2012, the Board opted to provide an eight-year phase out of the discounted agricultural water rates to the potable water rates. Staff recommends increasing the agricultural water rates according to phase out plan previously approved by the Board.

Sewer Rates:

Staff recommends a 3.8 percent increase to the sewer rate effective January 1, 2020 and January 1, 2021 respectively, in order to fund projected increases in cost of service.

Recycled Water Rates:

In order to continue to bring recycled water rates to be in line with the actual cost of maintaining and operating the recycled water system, staff recommends a seven percent increase to recycled water rates effective January 1, 2020, with another seven percent increase effective January 1, 2021.

Proposed Proposition 218 Notices:

To consider the proposed adjustments to rates and charges, the Board is required by law to provide public notice in accordance with Proposition 218. Staff recommends the distribution and publication of five Proposition 218 Notices of Public Hearing for the following customer classes:

- Residential water and sewer;
- Non-residential water and sewer;
- Agricultural water
- Recycled water; and
- Fruitvale (Improvement District 24) customers.

The notices including comprehensive information on the proposed rates and charges and information on infrastructure investments, water budgets, the sewer block rate structure and EMWD's drought stages and water shortage contingency plan. The notices also include the date and location of the proposed public hearing, which is scheduled for 9:00 A.M. on June 19, 2019 at the District's headquarters.

The draft Proposition 218 notices were distributed to the Board by email on April 9, 2019, and reviewed with the Board Administrative Committee on April 11, 2019. The Board provided several suggested amendments which were incorporated into the proposed notices. A copy of the five proposed Proposition 218 Notices of Public Hearing are attached as Exhibit's B, C, D, E, and F.

FINANCIAL IMPACT:

None at this time, informational only.

STRATEGIC PLANNING GOAL/OBJECTIVE:

Ensure financial stability and demonstrate responsible stewardship of public funds.

ENVIRONMENTAL IMPACT:

None

RECOMMENDATION:

Approve and authorize the following:

1. Final Draft of the Proposition 218 Notice of Public Hearing;
2. Distribution and Publication of the Proposition 218 Notice of Public Hearing; and
3. Schedule a Public Hearing for Proposed Water, Sewer and Recycled Water Rates at 9:00 a.m. on June 19, 2019.

SUBMITTED BY:



Paul D. Jones II, P.E., General Manager

4/15/2019



Laura Nomura, Deputy General Manager

4/15/2019

Attachment(s):

Exhibit A - Preliminary Biennial Budget for Fiscal Years 2019-20 and 2020-21

Exhibit B - Proposition 218 Notice for Residential Customers

Exhibit C - Proposition 218 Notice for Non-residential Customers

Exhibit D - Proposition 218 Notice for Ag Customers

Exhibit E - Proposition 218 Notice for Fruitvale Customers

Exhibit F - Proposition 218 Notice for Recycled Water Customers

Presentation

04/17/19 Board Meeting

Staff Contact: Charles Turner